



State of Wisconsin
Department of Health and Family Services

Jim Doyle, Governor
Helene Nelson, Secretary

MEMORANDUM

Date: 19 July 2006

To: Jason Helgersen
Executive Assistant

From: Jim Jones
Director, Eligibility Management

Re: Farmers/Other Self-Employed Individuals and BadgerCare Plus

Background

One of the longstanding issues in the BadgerCare program is the fact that many farm families and other families with self-employment income do not qualify for the program because of the way the Department calculates their income.

The IRS and DOR define taxable self-employment income as a family's gross earnings from the self-employment enterprise minus business losses and expenses and minus depreciation on capital assets, e.g., tractors, trucks, combines, and other costly equipment, needed for farming or other self-employment. The principle behind this policy is to leave the family with sufficient funds to continue to purchase the equipment needed to continue their business.

Under the Department's current policy for BadgerCare, countable self-employment income is a family's gross income, minus all tax deductions, except for depreciation. This policy originated in the AFDC program and was continued under Family Medicaid and BadgerCare when AFDC ended in 1997.

Farmers who purchase their own insurance pay more and get less than those who purchase their insurance through employers. A July 2006 report from the Wisconsin Farm Bureau Federation indicates that:

- 14% of Wisconsin's farmers have no coverage
- 17% had only catastrophic health insurance coverage
- Of the farmers who had insurance, 36% purchased their coverage through their spouse's employment or by working a second job with insurance (so-called 'off the farm' insurance).
- Farmers who purchased their own insurance 'on the farm' paid 93% more than those who purchased insurance 'off the farm.'
- Farmers with 'on the farm' insurance had an average deductible that was 183% greater than those with 'off the farm' insurance.
- Farmers with 'on the farm' insurance had significantly less coverage for doctor's visits and prescription drugs than those with 'off the farm' insurance.

Recommendation

As currently proposed, BadgerCare Plus will cover all uninsured children and all pregnant women with family incomes below 300% of the federal poverty level.

The Department is proposing that farm families and other families with self-employment income be included in BadgerCare Plus. The Department recommends a two-prong income eligibility test for this population.

1. Test family income (with depreciation included) against the 200% of the federal poverty level income limit. If the parent's income does not exceed the limit, the parent is eligible and may have to pay a monthly premium based upon the family's monthly income.
2. If the family's income (with depreciation) is above 200% of the federal poverty level, a second test on their income will be performed deducting the depreciation. If the family income, without depreciation is below 200% of the poverty level, they are eligible and will be required to pay a monthly premium that is equal to 5% of their monthly income with depreciation included.

Example: A mom, dad and their two children, ages 6 and 10, apply for BadgerCare Plus. They list their family income as \$35,000 based upon their taxable income from the previous year. Since this is farm income, we also find out from their tax forms that they listed \$25,000 as allowable depreciation expenses.

We determine that their children are eligible for BadgerCare Plus since they are uninsured. The family will need to pay a monthly premium for each of the two children. As currently envisioned, the amount will be based on family size and income on a sliding scale not to exceed \$70 per month per child.

When we compare the family's income with depreciation added back ($\$35,000 + \$25,000 = \$60,000$) to the 200% of the federal poverty level for their family size (\$40,000), they are ineligible. However, when we deduct the depreciation, their income drops to \$35,000 and they are below the \$40,000 income limit. The parents are eligible for BadgerCare Plus and will be covered by the BadgerCare Plus benchmark plan. We then calculate 5% of the family's \$60,000 income (with depreciation added) for a monthly premium of \$250 to cover both parents.

The family's total annual cost for insurance under BadgerCare Plus would be \$4,680 (\$250 for two adults + \$140 for two kids X 12 months).

In our example, the BadgerCare Plus cost to the family compares very favorably to the 'on the farm' insurance cost, which according to the Wisconsin Farm Bureau Federation, averages \$8,827.

Estimated Cost: Using the current monthly cost of adults in BadgerCare and Family Medicaid¹ of \$200, sample data from the Department of Revenue and a 5% of family income premium amount, the estimated cost for this change is as follows:

Maximum qualifying adults:	13,227
Estimated 25% participation rate:	3,320
Benefit cost:	\$ 7.9 million
Premiums collected:	<u>\$ 4.3 million</u>
NET COST (all funds)	\$ 3.6 million

¹ The Department anticipates that the BadgerCare Benchmark Plan will cost significantly less than the current adult per member per month cost in BadgerCare and Family Medicaid.